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The Market Commentary  
A Special Report on the Iranian War

## 1 Executive Summary

The US and Israel have attacked Iran in a preventative Cabinet war. Their goal is to definitively end Iran's strategic weapon program. They apparently believe the Ayatollah's regime will never agree to this but that the regime is ripe to fall. They have air dominance and can destroy Iran's organs of power at will. Survival of the current regime is indeed unlikely. The outcome is unclear. The military are in the process of taking over the Iranian government and some form of military rule is the most likely outcome. However there are several flavors of military and it is unclear which will prevail. There is some possibility that no power center in Iran can dominate the aftermath and some form of Constitutional rule results. Chaos is also a distinct possibility. However the US and Israel have concluded all of these outcomes are better than the former regime armed with nuclear weapons.

## 2 Introduction

We are issuing a special mid-month report focused on the Iranian War. Things are moving quickly and there are massive amounts of disinformation being pumped into the public sphere. Accordingly, we think it useful to provide a perspective which may help readers get their bearings on what is going on.

## 3 Origins of the War

The roots of this war are deep. Mohammad Reza Pahlavi was the second Shah of the Pahlavi dynasty. He ruled autocratically from 1953 forward. A strong Persian patriot he built up Iran's oil industry and applied the revenues to modernizing the state. In this project he was guided by a host of advisers, primarily American, with textbook theories of economic development and not so much practical wisdom. An economy with a lot of money swirling around and an autocratic government bred a situation in which those with connections could get very rich and lord it over neighbors. A deep resentment of the Shah, his modernizing advisers and his newly rich hangers on developed in society. This resentment found leadership in the country's traditional elites: urban merchants and the clerical establishment. The Shah responded punitively. His secret police became feared for their brutality and

his prisons overflowed. Eventually every family had a member of their clan in jail and they knew the only road to their release was that the Shah must go. Public protests broke out and grew in size as it was observed the Shah was not snuffing them out with his usual autocratic efficiency. In fact, the Shah had learned he was dying of cancer and he had lost the appetite to fight for power. He and his family went peacefully into exile and the revolution swept into power led by the Ayatollah Ruhollah Khomeini.

The new regime quickly set about liquidating enemies: Savak, the Shah's people, religious and social minorities. In Khomeini's analysis Iran's problem was that America had corrupted the Shah from the true pattern of society decreed by God. Khomeini viewed the Shah's modernizing with not just cultural revolt but complete disgust. For instance, the Shah's adoption of the Gregorian calendar in place of the Persian calendar was viewed as cultural corruption nearly amounting to apostasy - not as a step towards efficient economic integration with the world. In Khomeini's rhetoric America was branded the Great Satan. Israel had enjoyed good relations with the Shah based on a desire of both countries to develop commercial opportunities. Khomeini branded Israel the little Satan and switched Iran to backing the PLO.

These positions set and were hardened by a long series of incidents: the taking of American diplomats hostage, a long string of terrorist outrages involving Iranian sponsored groups, the Iran-contra affair, the Iran-Iraqi war, the aftermath of the second Gulf War. A foreign policy deriving from a theological analysis was also inherently inflexible and unable to evolve with changing circumstances. Khomeini passed away in 1989. He was succeeded by Ali Khamenei as Supreme Leader but there was hardly any change in policy.

Khomeini proved an inventive statesman and he entrenched the Iranian Revolution in a unique and durable government structure. He allowed a limited parliamentary democracy with a directly elected President. But he subjected that government to monitoring and supervision by a parallel power structure based on Iran's Shi'ite clergy. These men were highly trained in Islamic law and moved up the ranks of the clergy based on scholarly prestige. The duty of these men was to ensure government policy remained faithful to God's plan. Parallel to the two pillars of government were two military forces. Iran's traditional military of army, navy and air force continued to function. But the Iranian Revolutionary Guard Corp (IRGC) also was formed. They specialized in light armed tactical units, liaison to foreign paramilitary organizations, asymmetric warfare and social control. In particular their secret police, the million strong Basij, made itself more hated and feared than Savak. All these different threads of power culminated in the hands of the Supreme Leader who could

umpire between one and another.

At some point Iran developed the ambition to possess nuclear weapons. Probably the Shah had that ambition originally. But the new government found itself - as the only Shi'ite power in the world - naturally isolated on the world stage. It easily persuaded itself that it needed a nuclear deterrent - consisting of medium and long range ballistic missiles equipped with nuclear warheads to ensure its long term survival in the world. After all - if you are in mortal conflict with Satan who would go unarmed? The launching of this weapon program, combined with continuous political scheming and super heated rhetoric about burning the capitals of the Great and Little Satan to the ground powerfully caught and focused the attention of the United States and Israel.

Working through the UN Security Council the US was able to secure the agreement of Russia and China to imposition of stringent economic sanctions on Iran. These crushed the economy, built hatred of the United States and forced the Iranians to the negotiating table. Obama negotiated an agreement which slowed but did not eliminate Iran's nuclear program in return for partial sanctions relief. However, the plan was rejected by conservatives in both Israel and the US who felt Obama had been snookered by crafty Iranians. In fact, Obama was not on his surest footing in dealing with foreign affairs.

Trump in his first presidency voided the agreement and reimposed full sanctions. Iran naturally felt double crossed. Russia and China did not go along with this move and started to move closer to Iran diplomatically and then commercially. China in particular came to purchase 90% of Iran's oil which evaded sanctions by re-flagging itself as Iraqi oil. They also began supplying Iran with chemical predecessors of ballistic missile rocket fuel. Israel under Benjamin Netanyahu felt even stronger measures were needed and it opened a covert attack on Iran's nuclear program. A computer virus was infiltrated into Iran's systems and caused billions of dollars worth of damage. Assassination squads hunted down Iranian scientists and engineers.

Meanwhile the regime was going bad. It had never been especially competent at governing. As it gathered unquestioned power into its hands the connected again became rich, corrupt and overbearing. The clergy in particular amassed billions of dollars in personal funds. This was a huge disappointment to the public which had trusted the clergy as a moral element of society. Administration of the state became plagued by failure. Public unrest developed and the Basij became ever more overbearing. The senseless and unpunished killing in 2022 of a sympathetic young woman, Mahsa Amini, by the Basij ignited a storm of protests. Notably these protests were led by young people. But the protests also triggered unrest in the Kurdish minority community. After some delay the regime responded with its usual

brutality and terrible stories of the regime poisoning school children filtered out of Iran. Eventually the populace was cowed into submission.

During the Biden administration the US had sought to resolve the nuclear issue by negotiation with Iran. These negotiations were unfruitful. In late 2023 Hamas perpetrated a genocidal attack on Israel that commenced a violent and bloody war in the Gaza strip that ultimately resulted in the death of 4% of the territory's population. Iran was an ally of Hamas but it limited its assistance to mostly verbal gestures. The Supreme Leader was by now 84 and he appeared more interested in arranging a peaceful succession than in waging war on Israel. Nevertheless things escalated to Iran firing ineffectively at Israel and Israel attacking and taking out air defense radars in Iran. This attack sent Iran a clear message of its vulnerability.

Trump commenced his second presidency and continued to seek a nuclear deal with Iran. When he became convinced such was not possible a 12-day war began in Summer 2025. Israeli and US air planes attacked Iran - destroying many of their nuclear factories and taking out part of their missiles. Once the factories were destroyed Trump offered a truce which was accepted by Iran and which Trump imposed on Israel.

After the war an internal struggle in Iran took place between moderates and hard liners. The hard liners prevailed and Iran appeared to be trying to restore its nuclear program. For a fourth time the US engaged diplomatically with no success. Observing the direction of their government the public rose in protest/open revolt. The government put the revolt down - killing 35,000.

The US again tried the diplomatic approach. Again it failed So the US and Israel recommenced an aerial attack on Iran. Unlike the Summer War this attack began by killing the Supreme Leader and about 50 of the Iranian leadership. The coalition partners seem to have concluded that the current leadership would never abandon the nuclear program or make a wider peace. So they decided to - at a minimum clip Iran's wings and at a maximum to remove the regime entirely.

This is in both the US and Israel a cabinet war - one started by the calculations of leadership rather than by the outrage of the people. The US and Israel seem to have concluded war with Iran was inevitable, and better to have it at a time of their choosing when Iran was weak, fractured internally and not in possession of nuclear weapons.

## 4 Progress of the War

The Coalition forces rapidly destroyed Iran's air defense system. By the third day of the war they were announcing air superiority and by the fifth day air dominance.

That meant they could fly almost anywhere in the country, attack at will and return to base unscathed. In the first 14 days of conflict three planes were lost to friendly fire but none to enemy action. The goal of the coalition has been to destroy the organs of power of the Iranian state, beginning with the most potent and working down to the less vital. Here is current status (March 15, 2026)

**Leadership** The Supreme Leader, the Defense minister, the heads of the conventional military and of the IRGC and one of two intelligence heads were all killed the first day. Many senior politicians also were killed. The estimate was about 50 members of the leadership died at the outbreak of war. Currently the coalition appears to be targetting people at the brigadier general level, which probably indicates most higher ranking officers are already dead. They have also stated killing the first round replacements for offices previously liquidated by them. It is not clear who is in control of the government. If he is still alive it may be Ali Larijani. Iran's president survived and attempted to assert himself. The IRGC pushed for quick selection of a new Supreme Leader to limit the President's power. The IRGC forced the reluctant clergy to appoint the deceased Supreme Leader's son Motjaba Khamenei as the new Supreme Leader. He has yet to make a public appearance. He was apparently injured in an attack and is hospitalized. He put out a boilerplate memo announcing continuation of a hard line. One would infer that the IRGC is in control. But apparently they have devolved decision making to provincial heads as a protection against leadership strikes. It is possible a junta of colonels and brigadier generals is in control.

**Air Force** Iran's air force appears to be finished. Satellite photos of military airfields show each runway cratered by a sequence of precisely placed bomb strikes. There may not be a single usable runway in the country. Many hangers have been bombed and we suppose the warplanes destroyed.

**Navy** Iran began the war with about 30 warships divided between a large Southern fleet in the Arabian sea and a smaller Northern fleet in the Caspian. In addition there were about 60 support vessels. It would appear the Southern fleet has been sunk in its entirety and the support fleet as well. There is less news about the Northern fleet but the Caspian sea shoreline has suffered many attacks so we would assume that fleet also is much reduced.

**IRGC fleet** The IRGC has a substantial fleet of small vessels mostly operating in the shallow waters of the Persian gulf. There are armed speedboats, small

corvettes, mine layers and mini-sub. Coalition attacks on these are just beginning and are being reported as dozens of vessels sunk per day.

**Missile Batteries** Iran began the war with between 400 and 500 mobile ballistic missile launchers. Each launcher can fire several missiles per day. The Coalition had destroyed at least 300 launchers by day 10 of the conflict. It also destroyed about half the inventory of missiles. Launch rates are reported at just 10% of the pre-war nominal capability. However Iran is still able to coordinate launches from multiple launchers to create a barrage. Launched missiles are being intercepted. Only about 1% get through the defenses and land near their target. So far the damage has been nerve wracking but slight.

**Drones** Iran has a large supply of drones and is still able to launch them. Coalition efforts have focused on destroying the inventory of drones and intercepting them. Only about 2% of drones are penetrating the defenses and the damage they do is mostly at the nuisance level.

**IRGC** Half the IRGC/Basij bases in the capital have been attacked. Many provincial headquarters also have been attacked. For the moment some bases in the capital and in secondary regional centers still exist. But they are unlikely to last more than a week more.

**Logistics** The Coalition has just begun attacking logistic and administrative structures supporting the Iranian military. It is also destroying the factories which supply the military with advanced weaponry.

News out of Iran is very limited. But the movie “Downfall” about Hitler’s last days paints a vivid picture of what the collapse of a regime looks like. At Headquarters the rituals of power are maintained to the very end. But the Leader’s information is increasingly out of date. Orders are issued to units that no longer exist tasking them with missions impossible to perform given their state of supply. Mounting paranoia turns the regime against loyal members now suspected of betrayal and summary executions occur. The more active members of the regime gradually detach themselves and arrange as best they can for their survival. Many regime insiders are too stunned to do anything useful and simply continue increasingly meaningless activities. What little bits of information we get suggest this is about what is going on in Iran.

Below headquarters level we have some limited data about mid-level leadership. Basij units are said to have left their offices and to be meeting under freeway overpasses and similar points less open to air observation. We wonder if it matters.

Mossad appears to be comprehensively informed about what is going on in Iran. With much of the population eager for the fall of the regime, Mossad probably has an asset on every corner and in every conference room. It has likely raided the government's computer system and walked off with the home address, telephone number and bank account number of every official, soldier and operative. In the face of such penetration, regime paranoia is well founded.

Iranian casualties are uncertain. One report says more than 10,000 soldiers have been killed, that men are unwilling to man magnet targets like missile launchers and that reserve call ups have gone unanswered. Civilian casualties are even more opaque. Well publicized is one tragic incident at a girl's school. That we have not heard of many similar tragedies suggests this was a rare accident. With the government just having deliberately killed 35,000 of its own citizens, rare airstrike errors are unlikely to swing the populace behind the government. It is true that some demonstrations of loyalty to the former and present Supreme Leaders have been made. In the circumstances, such effusions are a prudent measure for deflecting suspicion from oneself. While some demonstrations of loyalty are undoubtedly real, we think others are self protective gestures,

## 5 The Straits of Hormuz

Iran has announced that it is closing the straits of Hormuz. Doing so takes Gulf oil production off the world market. The reduction is about 7 million barrels per day. Europe has released 400 million barrels from its strategic reserve. That covers about two months of lost production. China has 1.2 billion barrels in its reserve with which to sit out a blockage. Prudently it topped up in January and February. The US might release some oil from its reserve - probably just enough to damp speculative price run-ups.

Iran has various tools with which to close the Straits and the US has a full set of countermeasures at its disposal. We are skeptical that Iran can keep the Straits closed for more than a month. The Gulf states have largely halted production and restarting it takes some time - but typically not a full month. So if our expectation that the Straits are reopened within a month is correct, then this first round of release from strategic oil reserves should be sufficient. The price of oil surged on announcement of the Straits being closed. We doubt, however, that this surge will be maintained once the US Navy forces the Straits open again.

Our view is somewhat contrarian so we go through the reasons for it in some detail. The Straits of Hormuz are at their narrowest about 24 miles wide. The sea lanes occupy a band six miles wide and they lie close to the Omani shore. Beyond the

Straits the Gulf widens out to a maximum width of about 200 miles. The main sea lane runs pretty much through the deep water at the center of the Gulf. Midway into the Gulf it is close to the island of Abu Musa which the Iranians have turned into a fort for 2000 men. Using air bases on the South side of the Gulf the US can establish air dominance over the Gulf. The US has no need to bring a carrier task force into the Gulf. At the Straits there is a strong surface current flowing into the Gulf. This current gradually grows more languid as it moves northward into the Gulf. It either flows parallel to the sea lane or sweeps towards the Iranian shore. The current stops about midway north into the Gulf. A deep current forms and flows southward and out of the Straits. The Northern Gulf by contrast is largely a stagnant pool. Now let us go through the various tools Iran can use to try to close the Straits.

**Mines** Iran has a huge stock of mines. Most of these are simple floating mines but some may be advanced mines that are tethered to the sea floor. During the Gulf war mines were heavily sown in the Northern Gulf. In those stagnant waters they bobbed along a long term menace and it took years of effort to sweep the region clear of them. This experience creates the supposition that Iran can create a similar problem at the Straits. But the currents work against Iran. Floating mines released in the Straits are moved through the Straits and piled up on the Iranian shore by the current. Iran must continuously resow the mine barrier. Iran has a fleet of mine laying vessels - each capable of carrying three mines. Iran sent a swarm into the Straits and the US Navy sank 16 of them before Iran could release even ten mines. So floating mines could be a nuisance, but they are unlikely to close the Straits. Tethered mines will not be swept away by currents, but they need to be emplaced. Placement would be in the sea lane. US Navy remote operated vehicles can search the sea lanes to find any tethered mines and destroy them. Here the very defined search area limits the threat from tethered mines.

**Mini-Subs** Iran has between 14 and 20 mini-sub. These are small diesel-electric powered boats which can lie nearly undetected on the bottom. However if they fire a torpedo they reveal their location and are quickly hunted down and destroyed given a very limited submerged speed. A better tactic would be to use mini-sub to covertly place tethered mines. However the endurance of a mini-sub is just about 7 days after which it must surface and resupply. On the surface the sub is very vulnerable to destruction. Accordingly, we think the mini-sub fleet will be attrited fairly rapidly. With its destruction new placement of tethered mines diminishes in importance.

**Fast Speedboats** Iran has speedboats that advance at up to 60 knots and carry a munitions officer in addition to the pilot. These boats are suitable for swarm attack tactics. Fast as the boats are, US Navy attack helicopters are faster. They can swarm and sink the boats in turn.

**Shore Batteries** Shore based artillery and tactical rocketry can be used to interdict ship flow. Except in the Straits themselves and in the vicinity of Abu Musa, the ship lanes are too far from the Iranian shore for artillery to be effective. Even in the Straits the ship lanes are only within reach of heavy artillery which is easily neutralized from the air. Mobile rocketry has greater reach and being mobile is harder for air assets to destroy than heavy guns. But guidance is an issue. Although the Russians are providing the Iranians with satellite intelligence, integrating that data into terminal guidance is still a challenge. The Iranian shoreline is a narrow strip of flat backed by hill country. If the Iranians are pushed off the beach and beyond the first hill crest they probably lose line of sight access to the shipping lane. That push might require ground troops, but the area to be controlled is basically a small beachhead at a strategic point rather than the entire shoreline of the Persian Gulf.

**Abu Musa** Deep in to the Gulf Abu Musa presents a similar attack point. However air attack can isolate it logistically and wear down the defenses. A final Marine assault might be required to clear the island. If the Iranian forces decide on fighting to the last man, that could be a costly operation. But there is no doubt about the outcome and the Iranians, realizing this, might withdraw without offering combat.

**Drones** Air and sea drones may be Iran's most effective weapon. They can be launched from the back country and do not require line of sight view of the shipping lanes. They can reach the sea lanes at any point in the Gulf. Air drones are the mosquitoes of war - pesky but easily swatted. They can be brought down by interceptor missiles, helicopter gunships and even sailors lined up topside armed with shotguns. A combination of interdicting launches and providing layered air cover defenses can likely reduce this threat to manageable dimensions. Sea drones are a somewhat different proposition. They must be launched from the shore, require weaponry at least at the heavy machine gun level to stop them, but are less effective at range against a watchful target than air drones. Basically they travel more slowly which gives greater opportunity to detect and destroy them. As with air drones, a layered defense can be highly effective.

**Scuttling** Supposedly Iran has some hulks prepared for scuttling to create a physical barrier in the Straits. We doubt that. The water under the sea lanes is too deep for this to be effective. The counter measure of sending ships through only partially loaded so as to reduce their draft is too easy. Finally underwater demolition is well within the US Navy's capability.

**Insurance** The point is sometimes made that Iran does not need to physically close the Strait. Just a few successes at hitting shipping will be sufficient to cause ship insurers to refuse coverage so bringing traffic flow to a stop. This is a wonderfully naive thought. The US government has been writing war risk insurance since 1914. This is not the United State's first war.

Reviewing the above, one sees that opening the Straits to ship traffic is a campaign, not a single action. But the US appears to have adequate countermeasures such that it can prevail in this campaign relatively quickly. From that flows our assessment that Iran will be hard pressed to keep the Straits closed for more than a month.

Now let us for the moment put ourselves in the shoes of the Iranian commander tasked with keeping the Straits closed. He knows he has some assets, but they are sure to be eroded over time and his hope is not one of victory but of postponing defeat. His tactic will be to keep mixing things up, feeding assets into the battle as slowly as possible and generally trying to keep confusing his enemy. He undoubtedly will succeed in confusing the world press which will overreact to every little twitch of the campaign. His US counterpart, however, is unlikely to be confused. Rather than chasing a shape shifting target, the US is likely to focus on systematically and comprehensively getting control of the situation. This also will confuse the press which will sometimes wonder why it is not seeing a more immediate and direct US response to Iranian moves. This press confusion will undoubtedly generate some market volatility along the way. Agile traders may be able to benefit from that. Investors will prefer to bet on eventual US success and to ignore path dependent volatility.

The US Fifth Fleet has been based in Bahrain for thirty years and we have confidence the possible battles of the Persian Gulf have been war gamed to death. We would expect the Gulf has been comprehensively mapped in high resolution and probably networks of sensors are in place. What special surprises the US Navy may have up its sleeve we cannot say. But the Navy has fought plenty of green water engagements before. It should know what it is doing.

## 6 Iran's Allies

Hezbollah has decided it must attack Israel to honor its alliance with Iran. Israel is seemingly glad of the opportunity to visit more destruction on Hezbollah. More than a half million Lebanese have fled their homes in response to Israeli warnings that they are in a target zone. The Lebanese Cabinet is furious at Hezbollah and has stripped it of the para-statal powers it formerly enjoyed. The Lebanese Army is less enthusiastic about enforcing the Cabinet's orders. They seem to be waiting for Israel to do its bit first.

Iran's allied militias in Iraq have been attacking US installations and forces - much as they were doing previously.

We have no current information on Syria.

Hamas is keeping the peace and staying out of this war. The Houthis also have remained uninvolved for now. Minor random terrorist incidents have occurred outside the Middle East.

Social media is awash with cheer leading for Iran from many different parties. If you read it on Social Media you can pretty much assume it is the reverse of the truth.

## 7 International Reactions

China has continued buying Iranian oil. A Chinese tanker was struck by an Iranian missile as it exited the Straits of Hormuz - the only ship so far to have been attacked in that particular stretch of water. With oil export providing 90% of the Iranian government's revenue and China buying 90% of its oil this was an impolitic act to say the least. The Europeans do not buy Iranian oil but they do buy lots of oil from the Gulf. They are trying to negotiate safe passage for their ships through the Strait. The US and Israel do not buy much oil from the Gulf. In fact the US exports oil and the Muslim states long refused to trade with Israel. However, the latest announcement from Iran is that the Straits are open to all ships other than Americans and Israelis. If implemented this will allow the Gulf states at which Iran has been firing missiles to resume peaceful exports. The situation is confused.

The Europeans are mostly not helping the US in this war, and the US is mostly not helping them in the Ukrainian war. This is, however, more a division of responsibilities than a parting of the ways since Russia and Iran are allies. Russia is supplying Iran with satellite intelligence. China also may be doing so. This is pay-back for the US providing intelligence to Ukraine. Russia is short of arms for itself. It has sent Iran some equipment, but so far nothing game changing. China is selling

Iran rocket fuel chemicals - a mostly irrelevant act as the US will have leveled Iran's missile factories before the shipment arrives. Our sympathies are with the workers tasked to unload explosive cargo under US air attack.

The Arab states might have had some sympathy for Iran if Iran had not shelled them. But presently they are more eager for the fall of the regime than the Iranian populace. The diplomatic cables to Washington are probably flooded with different ways of saying "faster please."

The non-aligned nations generally think the United States a bully and do not like the sight of Anglo-Saxons humiliating a non-Western country yet again. But it is the third century of such humiliations so what can you say? In short they serve up lots of tiresome commentary of no great originality.

Iran's only real friends are in the United States. The Democrats are sure everything Trump does is wrong, so they are convinced the war is an appalling act of illegality which is sure to prove an act of folly. They are quite confident the Iranians will win. Not quite agreeing with them is MAGA. "No more foreign wars" was a core component of the MAGA creed. For the moment they are prepared to give "their President" the benefit of the doubt. But privately there is nervousness, shuffling of feet and some sense of betrayal. Always ambitious to be the next leader of MAGA, Vice President Vance has kept mum about the war and avoided endorsing it. The only group (probably) to solidly support Trump is the aging neo-cons he drove from office. They understand cabinet wars and the Iranians better than most. Finally there is that mythical character Joe Six Pack who understands nothing about politics but who has a keen sense of the price of gasoline and who, despite his lack of civic engagement, still manages to make his way to the polls each election. Republican Congressman up for re-election in November are very solicitous of Joe's feelings and they earnestly hope the price of gas will not get Joe agitated.

Trump made little effort to explain the war to the citizenry beforehand. Preserving an element of military surprise was probably the reason for this choice. Since then Administration messaging has been sloppy and careless. These are own goals that, probably, reflect the result of staffing key departments with bantam weights.

## 8 What Comes Next

In a word, more of the same. Air power will continue to whittle away Iran's sinews of power. It will be increasingly difficult for Iran to co-ordinate forces nationally, to pay units and to resupply them. Experienced leadership will become increasingly dilute as leadership strikes continue. Increasingly attack will center on the IRGC and Basij

forces. Of the conventional forces only the Army remains and it will probably be the dominant military element at the end of active hostilities.

Besides air power there are other things the US might do. It might mount a deep special forces raid to capture or destroy Iran's stock of highly enriched uranium. Iran has probably mounted double guards on it which may actually serve Coalition purposes well to make sure it is not lost in the chaos. Marines could seize Iran's oil terminal at Kharg Island to exert leverage in the Straits and cut off Iran's revenues. They could also take direct action to secure sea lanes. The US could also supply arms to separatists or internal uprisings. This range of options will keep Iran guessing and feed its paranoia.

During the January revolts the Iranian elite moved substantial sums to the Gulf states. Now that Iran has attacked those states that does not seem such a smart idea. In the event of regime collapse, the senior leadership can likely count on refuge in Russia. Middle rank officials have fewer places to go to. Some may take refuge in Iraq. India is also a big place to disappear in, but it is not particularly welcoming of Muslims at present. Rank and file really need the regime to survive in some form or the public to not be set on vengeance.

The regime could decide to come to the negotiating table. Or it could fight on until it is completely exhausted and collapses. In that case the populace might rise in revolt and massacre its former masters. Fear of this outcome will push the regime to negotiate. Or the coalition could decide they have done enough damage for now, that there is no government left to negotiate with, and so they simply sail away.

## 8.1 Post-War Iran

In this section we consider various post-war scenarios for Iran and speculate about their probability. Then we consider the implications for the wider region

**Renewal of the Khamenei Regime** For this to come about Washington must give way to the nervous nellys and make a pre-mature ceasefire that leaves the current regime intact and able to reconstitute itself. The regime continues with Motjaba Khamenei as Supreme Leader, or - if he has been killed - picks a near replacement. The hardliners under the Supreme Leader's leadership continue with a redoubled policy of confrontation carried out, perhaps, with more subtlety than the Supreme Leader's elderly predecessor could muster. We put the probability of this outcome at 1%. If Iran can cause major disruption of the oil industry the probability might increase to 20%.

**An Ideological General Takes Power** For this to happen Iran falls into chaos

with multiple warlords competing for power. Washington loses interest and disengages. The most ruthless warlord grabs power. He is driven by ideological commitments and a desire for revenge arising from personal loss. He stabilizes his regime by a close alliance with China and he rebuilds Iran's military both to keep this critical supporter on side and fueled by dreams of an eventual war of revenge. We put the probability of this outcome at 18%. Basically it presumes Washington neglecting an obvious hazard in the situation. But Washington has had extraordinary lapses of judgment and attention in the past and might do so again.

**A Reforming Ayatollah** Iran selects an Ayatollah who understands that everything must change to preserve the State. He makes a fundamental transfer of power to the Parliament while acting as an umpire who keeps the political process on course. In essence he rules as a Constitutional monarch who sees emergence of a strong parliamentary government as in the best interests of the State. This outcome requires a leader of extraordinary vision and skill who is able to unify all parties behind this approach. That is not impossible and such men can come from anywhere, but they are rare. We put the probability of this outcome at 3%. We doubt any Ayatollah can win Netanyahu's acceptance, but Trump might be willing to roll the dice and give the man a chance.

**A Pragmatic General Takes Power** This outcome is similar to the ideological general but the winner of the internal power struggle is a pragmatic nationalist. He sees the futility of confrontation with the US and the desire of the populace for normalcy. He reconciles all parties to autocratic rule as the way to avoid terrible chaos. He wins the backing of Israel and the US by dismantling the nuclear and ballistic missile programs and the US stabilizes his rule by lifting economic sanctions. We put the probability of this outcome at 37%. The coalition can help bring it about by concentrating their attack on the ideological components of the military and allowing the survival of a general not tainted by association with the Ayatollah's repression.

**A Pahlavi Restoration** For this to come about the minorities (Kurds and Balochis) must mount successful secession movements. The Persian element of the population becomes convinced that their survival depends on a nationalist leader acceptable to Washington and they turn to the former dynasty. Support for the Crown Prince is sufficiently strong that he takes the throne. He proves to have the political skills to rule as a strong but constitutional monarch. Washington and Jerusalem are happy with this outcome and support his regime but

maintain enough distance that he is not seen as their puppet. We put this outcome at the 4% level. For it to work out a near magical alignment of forces must occur, but its not impossible and some actors will work to bring it about.

**A weak democracy emerges** The war ends with all power centers in a shattered state. None are able to capture the State and all fear both chaos and an alternate power center taking charge. A weak democracy is everyone's second choice outcome. It is brought about by removing the Ayatollah's institutions from the Constitution allowing the existing Parliament to take charge. Again Washington is satisfied and acts to stabilize the regime. Over time the government does more things right than wrong, gradually gains the people's trust and solidifies into a stronger government. Or it makes a series of mistakes, loses the weak confidence of the public and some general seizes power. We put the possibility of a democratic phase at 18%. We put its probability of solidifying into a long term solution at 11%.

**Chaos** At the end of the war the State is shattered. Ethnic, ideological and class divisions rip the society apart and foreign meddling continuously stirs the pot. Chaos reigns until all parties are fully exhausted and the last war lord left standing assumes power. There are two roads to this outcome. Either none of the alternatives establishes itself or one of them is tried but fails quickly and chaos breaks out. The probabilities are respectively 18% and 30%.

Next let us aggregate across the outcomes and assess the probabilities of certain events. The probability of autocratic government is 55%. The probability of some form of constitutional government is 25%. The probability of chaos is 20%. The probability that Iran emerges as a hostile satrapy of China is 20%. The probability that it is relatively neutral in great power politics and focused on internal issues is about 60%. The possibility that it integrates into the western power block to some degree is about 5%. And the possibility that it is in too chaotic a state to be an international actor is about 15%.

If Iran ends up knit into the China block then it will simply be China's proxy in the region and decisions will be taken in Beijing. If it ends up in a neutral position then likely its main external ally will be India. Mostly it will work for stability and prosperity. It will probably not move so close to India as to become involved in the India-Pakistan situation, but it will probably withdraw support from the various allies the Ayatollahs cultivated and it will support strong trade relations with the Gulf countries. The picture in the the more western aligned outcome is not particularly different but perhaps some friendly relations with Israel emerge ten to twenty years down the road.

The US went to war to destroy an enemy. It does not seem to have strong expectations of building a friend. Of the scenarios sketched above, 60% could be judged satisfactory by the US and 40% are troubling but still an improvement on the prior situation. The US has some powerful tools in its hands with which to shape outcomes. For it to succeed Trump will need to ignore the chorus of voices currently proffering advice and to find the one voice to listen to which is a sound guide to the situation and which understands when to apply US power and when to accept the limitations of US power. We think Trump is very strong on the first task. On the second task we are uninformed.

## **9 Investment Implications**

We think the oil industry's growth days are over and it is likely headed for secular decline. This moment is opportune for lightening exposures.

## **10 Credits**

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